

Keeping Washington's Promise

The Governor's 2000 Supplemental Budget Plan

December 16, 1999

Budget Principles:

- ▶ **Education is Our Highest Priority** – Improving student achievement and access to higher education are the keys to our future.
- ▶ **Live Within Spending Limits** – The budget is within Initiative 601 spending provisions that were approved by voters and no new taxes are proposed.
- ▶ **Provide Property Tax Relief** – Senior citizens, persons with disabilities, and taxpayers in general receive tax cuts and protection against valuation spikes.
- ▶ **Protect Working Families and the Environment** – Public safety and public health programs affected by Initiative 695 funding cuts receive safety-net funding.
- ▶ **Use Surplus State Revenue to Improve Education and Cut Taxes** – Revenue in excess of state spending limits flow back to local schools and to taxpayers.
- ▶ **Protect the Rainy Day Fund** – To protect key public services in an economic downturn, a reserve fund of more than a half-billion dollars is maintained.

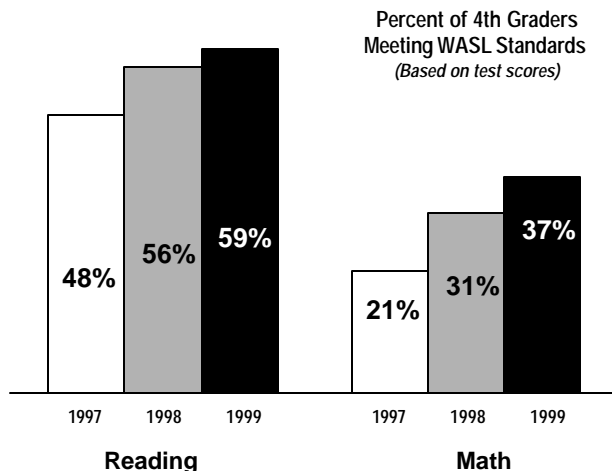


The Governor's Priorities

Education

- ▶ **Lower Class-Size to Raise Test Scores:** Meaningful improvements in student-teacher ratios, currently third worst in the nation, begin with 1,000 new teachers in Fall, 2000. The Governor's long term proposal to increase school funding will pay for up to 8,000 additional teaching positions by 2004. In total, the Governor's plan provides funding to reduce K-4 class sizes by five students per classroom by 2005.
- ▶ **Make College Education More Affordable:** Washington's Promise Scholarships for students who meet state academic standards is expanded and the scholarship amount is increased. Long distance learning programs are expanded through Washington Online.
- ▶ **Strengthen The Teaching Profession:** A Teaching Professional Standards Board is established. New teachers are tested. Excellent teachers are rewarded with bonus pay.

Test Scores Improving, But Not Fast Enough



Government Accountability

- ▶ **Share the Prosperity:** Future revenues above spending caps go for education and tax cuts.
- ▶ **Make State Government More Efficient:** Funding for 1,500 positions in the state workforce is eliminated. On-line services are expanded. The savings incentive program is broadened. More services are purchased from the private sector. Civil service, pension systems are reformed.
- ▶ **Responsibly Implement Initiative 695:** State reserve funds are used to help local governments maintain public safety, health and transit services.

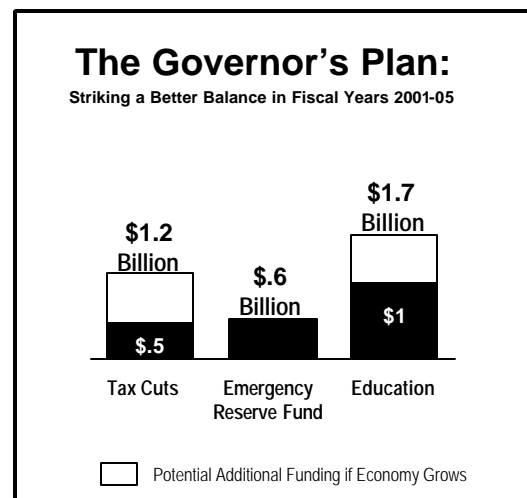
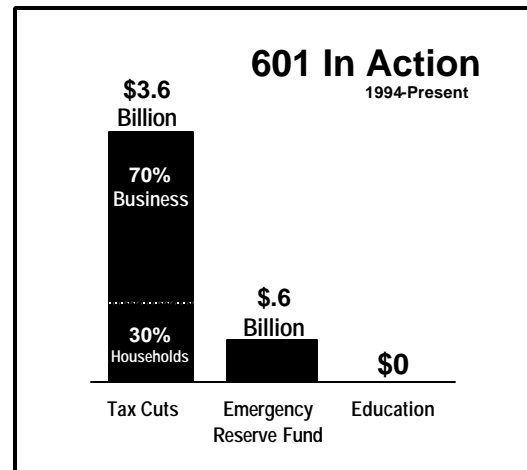
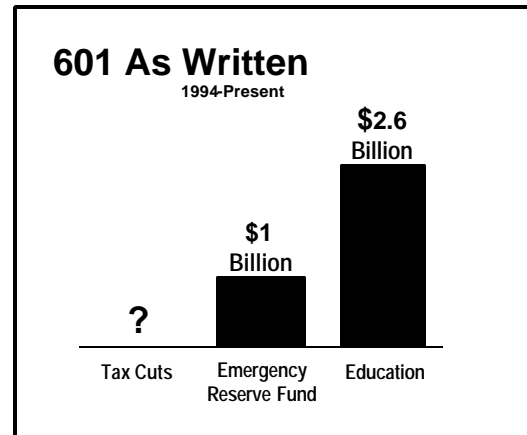
Striking a Better Balance

Initiative 601 provided for a spending limit, an Emergency Reserve (“Rainy Day”) Fund, and a mechanism to direct surplus revenues to education. Left to operate as designed, I-601 would have generated \$2.6 billion for education since 1994.

Where has the money gone? Today, we have a smaller Emergency Reserve than projected, and \$3.6 billion in tax cuts that have had little impact on individual citizens and households. Not a dime of surplus has gone to education.

The Governor strikes a better balance between what 601 promised and what it delivered. The Governor proposes:

- ▶ Initial *property tax cuts* of more than half a billion dollars over the next six years for businesses, households, and senior citizens.
- ▶ A guaranteed *investment in class size* reduction of more than \$1 billion over the next six years.
- ▶ A “*prosperity dividend*” that divides future surplus revenues equally between additional tax cuts and investments in education. If the economy performs at a better than average pace, as much as \$1.4 billion of the dividends will be divided equally between tax relief and investment in education. At all times, the Governor’s plan stays within the I-601 spending limit and maintains a reserve of at least a half-billion dollars.



Sharing Prosperity Through Tax Relief

The Governor believes elders and people with disabilities deserve more property tax relief. He also believes homeowners in general should get both property tax relief and protection from sudden spikes in valuations. The accelerated growth in property tax values feeds the frustration of property owners. Governor Locke wants to make property taxes more predictable.

► **Homestead Property Tax Credit:**

Senior citizens and disabled persons eligible for existing property tax exemptions are exempted from the state property tax levy. The exemption is in the form of a credit, which prevents the tax burden from being shifted to other taxpayers. Depending on their level of income, senior citizens and disabled realize property tax savings of between \$200 to \$500 on a dwelling valued at \$150,000.

- **Reduction in State Levy:** The state property tax levy is reduced by 6.2 percent for all property owners beginning with property taxes due in calendar year 2001. The homeowner with a residence valued at \$150,000 receives a property tax reduction of \$27 (on average in the first year.) State property tax revenues decline by \$45.9 million in FY 2001.

- **Property Value Smoothing:** The state Constitution is amended to allow for the smoothing of large changes in property valuation. Large increases in property values will be averaged over four years. This allows large increases in assessed value to be phased in over several years, reducing sudden and unexpected impacts on taxpayers.

- **Tax Relief Grows:** If the economy remains strong over the next five years, half of the future surplus goes back to taxpayers in the form of additional tax cuts. These reductions augment permanent property tax relief.

It adds up to half a billion dollars in permanent tax cuts and an additional \$700 million if economy remains strong.

	<u>Property Tax Cuts</u>	<u>Prosperity Tax Cuts</u>
2001	\$61	
2002	\$110	
2003	\$115	\$206
2004	\$120	\$242
2005	\$126	\$251
Total	\$532	\$700

Combined Total = \$1.2 billion.

1999-2001 Biennium, Dollars in Millions

1000

GF-S Savings = (\$157)

**Education Tax Credits
and Appropriations
\$266**

Other Supplemental \$86

Remaining Reserve \$575

K-12 Education: Helping Kids Learn Now!

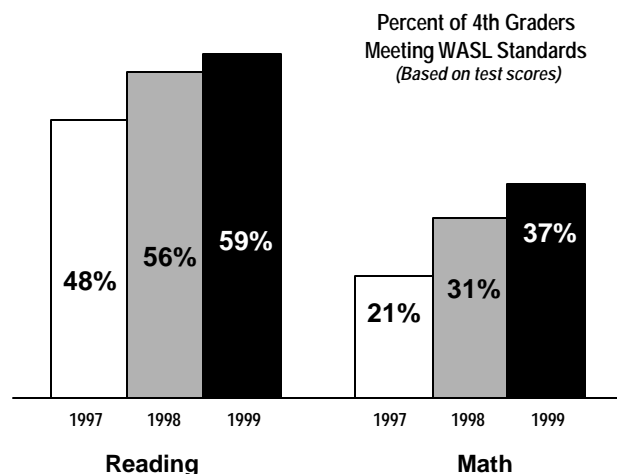
Improving the state's education system remains the top priority. Enrollment savings have been reinvested into K-12 to reduce class size and improve teaching standards. Tough learning standards for K-12 students are in place. Test scores are improving, but not fast enough.

- ▶ **More Teachers:** 1,000 more elementary school teachers are added for Fall 2000 as a “down payment” on a longer-term plan to reduce elementary school class sizes by at least 5 students to increase individual attention to students. \$51.1 million GF-S in 2001
- ▶ **Excellent Teachers:** The Governor is resubmitting his proposals for teacher testing, a professional standards board, bonus pay and principal training. In addition, more resources are provided for professional development. \$6.5 million GF-S.
- ▶ **Learning Improvement Property Tax Credit:** Over five years, local school districts keep over \$1 billion more of the property taxes paid in their communities, with no increase in taxes, to be used to further reduce class sizes.
- ▶ **Safer Schools:** Grants are provided to fund increased security at school buildings for an additional 48 school districts. \$5.2 million GF-S

Why Reduce Elementary School Class Sizes?

There is some improvement in learning evident in the state's new 4th, 7th, and 10th grade tests. But too many students still do not achieve the standards that we know are important for their futures.

Test Scores Improving, But Not Fast Enough



Washington ranks 48th of the 50 states in the ratio of students to teachers in our schools. Smaller classes in elementary school will help students improve their performance, improve discipline and reduce behavior problems among children.

Smaller Classes Are Better Because:

- Teachers will know more about each student's individual learning needs. Their teaching skills will more effectively reach students. When teachers have more time and fewer students, they can focus more on each student and communicate better with parents.
- Struggling students get more help in smaller classes. Teachers can identify problems earlier and help students catch up. They can also concentrate on improving children's learning skills and less on behavior problems. More attention to high-achieving students can make their experience more challenging.

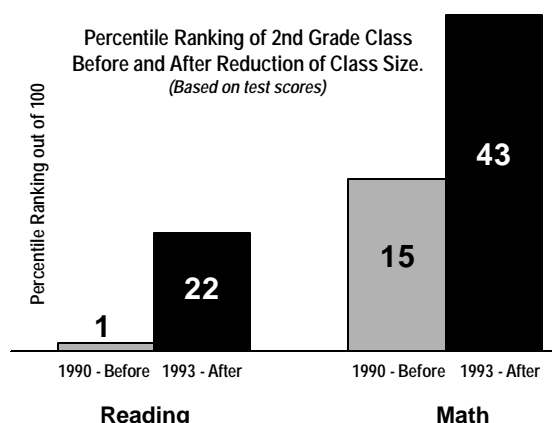
Growing Demands on Teachers, Students & Parents:

- Classrooms are changing, making both teaching and learning harder. Teachers, students, and parents all have high demands on their time. Jobs require longer hours from parents. Drugs, alcohol, and violence can create behavior problems for children. With over 70 percent of Washington's children in homes with single parents or with both parents working there is often less time to help children with schoolwork.

Adding Teachers to Spend More Time with Students:

- Meaningful improvements in student-teacher ratios, currently third worst in the nation, begin with 1,000 new teachers in Fall, 2000. The Governor's long term proposal to increase school funding will pay for up to 8,000 additional teaching positions by 2004. In total, the Governor's plan provides funding to reduce K-4 class sizes by five students per classroom by 2005.

Experience from other States Shows Class Size Reduction Matters

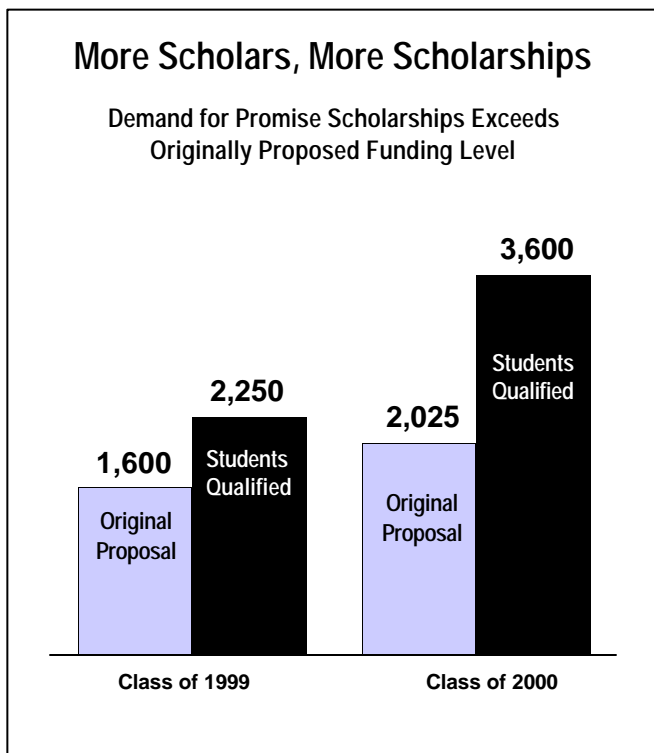


NOTE: Tennessee 2nd graders before and after class size reduction from 23 students to 15 students.

Higher Education

In 1999, Governor Locke and the Legislature established major new policies for higher education: A new scholarship program that rewards merit; unprecedented enrollment growth supported with state funds (with part of it targeted to high demand fields); and tuition set by college and university boards, based on the needs of their markets.

- **Promise Scholarships:** Promise Scholarships are fully funded for the biennium. The program, which put college within reach of thousands of students, drew more qualified applicants than expected. \$4.5 million GF-S



- **Long Distance Learning:** A one-stop web-site is funded to help thousands of community and technical college students who now must go to several on-line sites to find their on-line courses, register for classes and pay for them. \$1.5 million GF-S
- **Expanding K-20 Network to Include Public Libraries:** The state's 68 public library districts are connected to the K-20 Technology Network's on-line learning opportunities. Washingtonians have network access through their local public library. \$2.1 million GF-S
- **Increase Information Technology:** Grants to help respond to the critical shortage of information-technology workers are more than doubled. The matching grants go to community colleges and four year universities. \$2.4 million GF-S
- **Making Critical Repairs:** Washington State University is able to ensure that heat and uninterrupted power are available to the campus. Funds emergency roof repairs at Columbia Basin Community College. \$3.6 million WSU; \$1 million CBCC
- **Maintaining and Operating College Facilities:** Maintenance and operations funding is provided to community and technical colleges for needed student services, classroom space, laboratories, and other instructional activities. \$670,000 GF-S
- **Closing The Skills Gap:** The Workforce Training and Education Coordinating Board gives grants to local workforce councils to build public-private partnerships to train needed workers. \$1.2 million GF-S

Responding to the Challenge of Initiative 695

Basic Principles Guiding the Governor's Plan:

- ▶ No new state tax increases are proposed to replace Initiative 695 losses.
- ▶ Funding for education is not sacrificed to meet transportation needs.
- ▶ Funding solutions for Initiative 695 do not involve changes to Initiative 601.
- ▶ No city or county loses more than 10 percent of its budget dollars. Public Safety and other local government programs receive assistance for priority services. \$32.7 million GF-S, ongoing appropriation, \$51 million one-time GF-S appropriation
- ▶ State Air Quality program is funded because failure to meet federal clean air standards would jeopardize public health and federal funding. \$12.3 million GF-S

\$390 million Is Assumed for Public Health, Safety and Transit:

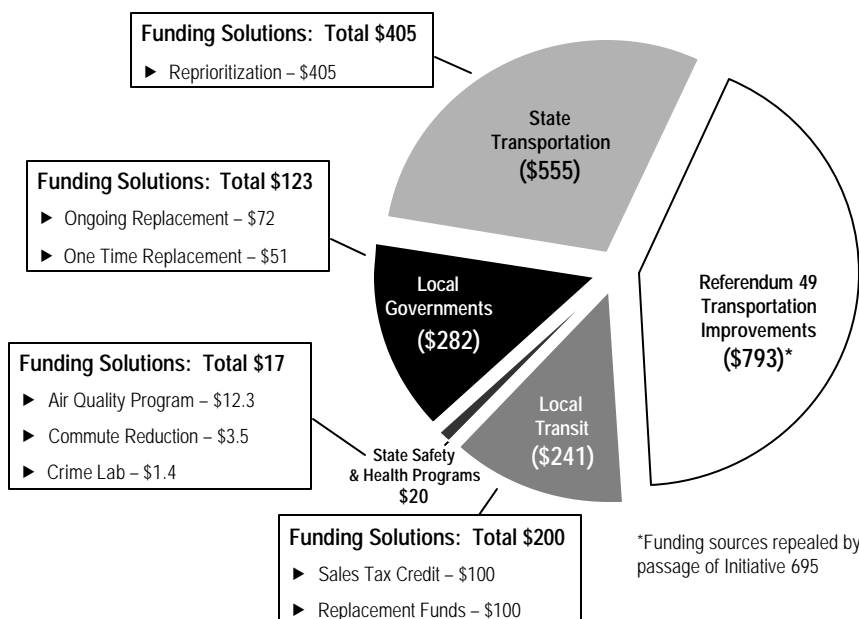
- ▶ Local transit systems receive temporary funding to allow time to identify long-term solutions. \$100 million of one-time local option sales tax credits, and \$100 million in a one-time GF-S appropriation.
- ▶ Local Public Health activities are funded at a minimum of 90 percent of their MVET revenue loss. \$39.3 million GF-S, ongoing appropriation
- ▶ Washington State Patrol Crime Lab, which provides criminal evidence analysis for both state and local government, is funded. \$1.4 million GF-S
- ▶ State Transportation Fund Liability for the last two MVET distributions to local transit authorities is fully funded. (The rest of the \$114 million liability is paid through transportation funds.) \$50 million GF-S

I-695 Defense

- ▶ Attorney General Defense Cost is funded to defend I-695 against legal challenges with a three person legal team. \$462,000 GF-S

Funding for Losses From Initiative 695:

(Dollars in Millions)



*Funding sources repealed by passage of Initiative 695

Transportation: Maintaining Core Services

Referendum 49, acknowledged as a short-term solution, was repealed by Initiative 695 only one year after its passage.

- ▶ **Blue Ribbon Commission on Transportation** was created by the Legislature to take a comprehensive look at Washington's long-term transportation needs, priorities, funding, policies, and practices. An independent body representing a cross-section of state transportation stakeholders, their goal is not to offer a short-term solution, but to initiate solutions for a 20-year period.

The Commission's Workplan

Phase 1: Start up

July 98– Jan 99 *Organize, adopt vision and charters, select topics*

Phase 2: Evaluate

Feb 99 – Aug 99 *Gather information, develop preliminary committee findings and benchmarks*

Phase 3: Findings

Sept 99 – Jan 99 *Draft and revise Commission findings and benchmarks, seek public input, adopt findings*

Phase 4: Options

Feb 00– Nov 00 *Develop preliminary options for solutions, seek public input and debate*

Phase 5: Recommendations

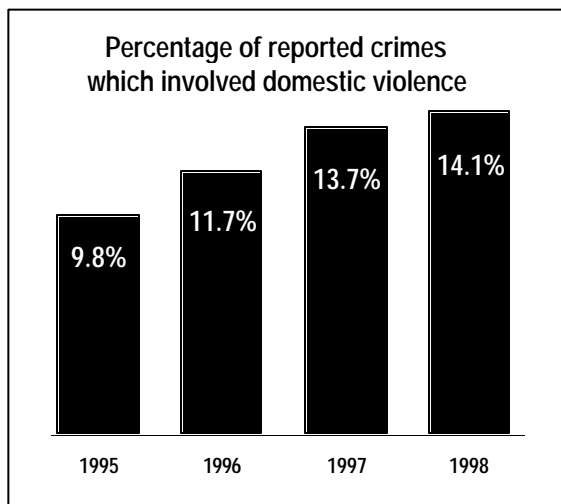
Dec 2000 *Deliver final recommendations to Governor and Legislature*

- ▶ **State highway construction projects** totaling \$1.1 billion are funded. \$758.9 million in highway construction projects are cancelled.
- ▶ **Maintenance and preservation** of current transportation infrastructure continue as the system operates at or above capacity in many areas. Future investments are futile if the current transportation infrastructure is not properly maintained and preserved.
Total proposed budget \$747.7 million, (\$114.5 million reduction)
- ▶ **Critical safety improvements** are funded to correct highway safety problems and to ensure the safety of our highway system. Total proposed budget \$109.2 million, (\$60.5 million reduction)
- ▶ **Loss of ferry service funding is limited** to 7.4 percent. Services are maintained to preserve peak hour vehicle and passenger service capacity, summer tourist route capacity, and a fall/winter/spring presence on all domestic auto ferry routes. Total proposed budget \$280.7 million, (\$22.3 million reduction)

Personal and Public Safety

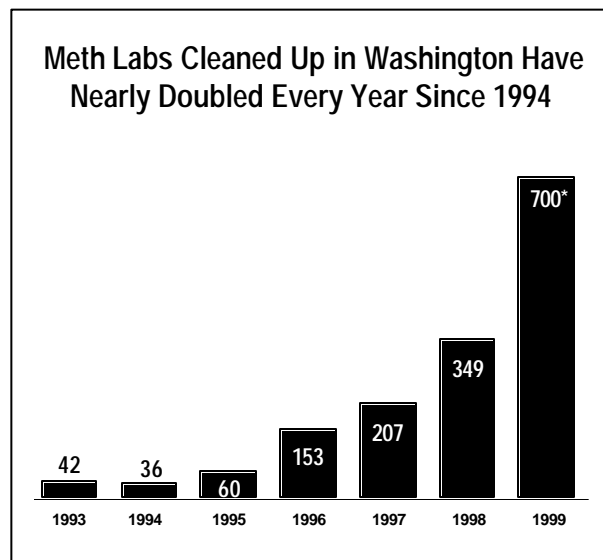
Nothing is more important than our safety, and our safety takes many forms, ranging from freedom from domestic abuse or the hazards of underground pipelines to the certainty that authorities have the tools to control criminals and clean up toxic meth labs.

- ▶ **Preventing Domestic Violence:** Batterers are held more accountable. Domestic-violence-awareness program is created. Coordination between social service and criminal justice agencies in responding to domestic violence is improved. \$1.6 million Domestic Violence Reduction Account



- ▶ **Home-Care Quality Initiative:** Long-term caregiver qualifications and background checks are improved. Up to 750 clients are empowered to employ their own caregivers. Interagency teams are created to better assist and protect in-home care clients. \$2.2 million GF-S, \$4.3 million total
- ▶ **Better Tools For Law Enforcement:** Video cameras are installed in all front-line Washington State Patrol cars. Regional Information Sharing System network is created to improve crime fighting across jurisdictional lines. Radio communications among public safety agencies are improved. Better screening and tracking of offenders with mental illness or links to hate groups are achieved. \$9.6 million GF-S

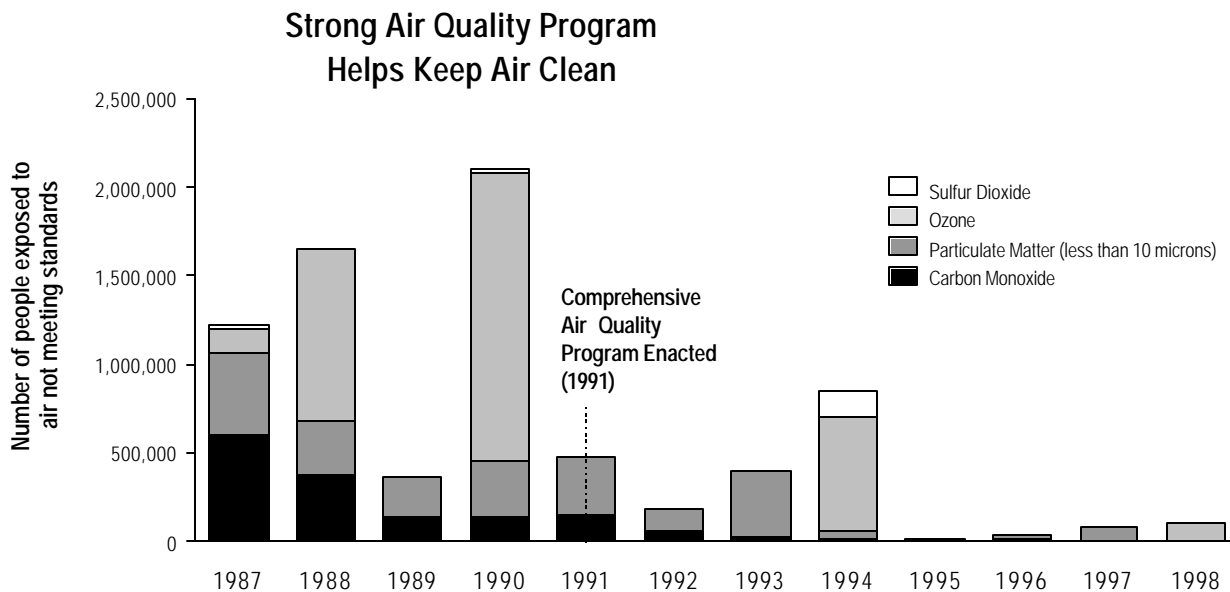
- ▶ **Making Pipelines Safer:** Steps up response and training and creates resources at the Utilities and Transportation Commission to begin the process of gaining state authority over pipeline inspections from the Federal Government. \$345,000 GF-S
- ▶ **Violent Sex Offenders:** Funding is provided to expand treatment and facilities for violent sex offenders to comply with a court mandate. \$5.5 million GF-S, \$19.5 million total
- ▶ **Managing Cougars and Bears:** The Department of Fish and Wildlife gets more enforcement officers and biologists to investigate and quickly respond to complaints of cougar and bear sightings. \$1.1 million GF-S
- ▶ **Cleaning Up Meth Labs:** Funding is added for the rest of the biennium to keep up with cleanup of a growing number of methamphetamine labs. \$750,000 GF-S



Commitment to Air Quality and Salmon Recovery

Washington's air, water, and salmon require constant vigilance and protection. Governor Locke proposes actions to ensure the state's Air Quality Program remains strong, and the campaign continues to protect wild salmon and the habitat they need to survive.

- ▶ **Air Quality Program:** Full funding is restored after Initiative 695 repealed the Clean Air Excise Tax, which funded the Department of Ecology's (DOE) program to monitor and regulate air quality.
\$12.3 million GF-S
- ▶ **Field Burning Tax Credit:** Farmers and businesses are exempted from sales and property taxes on equipment or expenditures made exclusively to reduce air emissions from field burning. A 50 - percent tax credit against the Business and Occupation (B&O) Tax for similar expenditures is offered. (\$110,000 GF-S revenue loss.)
- ▶ **Commute Trip Reduction Tax Credit:** The employer tax credit is continued despite the elimination of its funding source with the passage of I-695.
(\$3.5 million GF-S revenue loss)
- ▶ **Forests and Fish:** Adds funding for the 1999 Forest Practices–Salmon Recovery Act to help small landowners comply with new regulations, purchase easements, identify conditions hazardous to water quality, and monitor habitat improvements.
\$3 million GF-S and \$2.5 million bond funds
- ▶ **Shoreline Master Programs:** Financial and technical assistance is provided to local governments to update their Shoreline Master Programs. \$3.8 million GF-S
- ▶ **Water and Farming:** A collaborative planning effort to improve irrigation and other agricultural practices is continued in order to conserve water and protect water quality while maintaining the economic viability of agriculture. \$257,000 GF-S



Expanding Economic Vitality

Governor Locke and the Legislature took important steps in 1999 to foster economic development. But more needs to be done to train workers for the new economy, and to create a Washington in which rural and urban areas share in the prosperity.

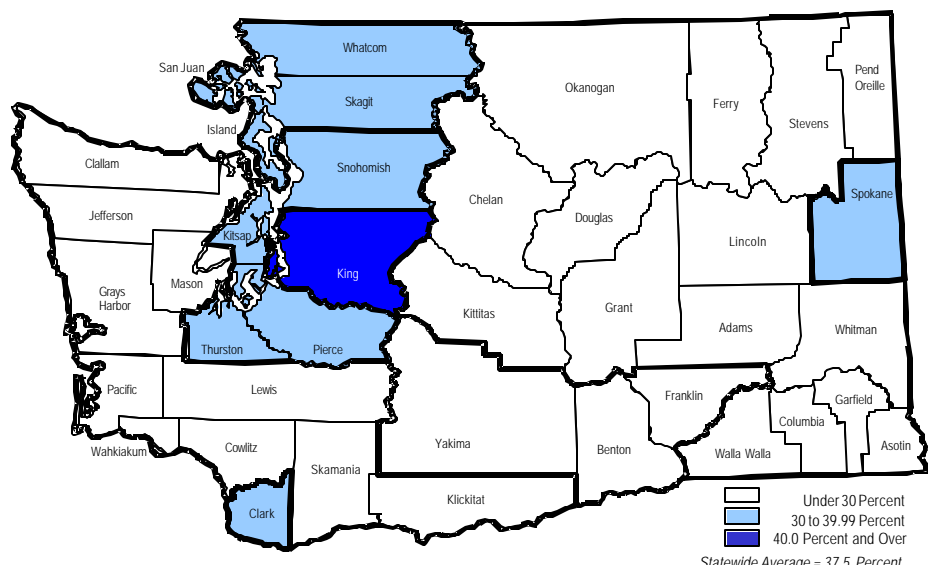
- ▶ **Skills Gap Fund:** The Work Force Training and Education Coordinating Board provides grants to local work force councils to build partnerships between businesses and education institutions to meet the training needs of local industries. \$1.2 million GF-S
- ▶ **Job Training for Existing Workers:** Businesses that contract with community colleges or private schools for worker training are allowed to credit 50 percent of the cost against their Business and Occupation Tax. \$1 million GF-S
- ▶ **Focus Strategy:** The Department of Community, Trade, and Economic Development is split to better focus on community and economic development issues. One agency is dedicated to community development and the other to economic development and promotion of trade. \$1.3 million GF-S
- ▶ **Narrow the Digital Divide:** Public utility districts and port districts in rural counties are granted authority to fill much of the telecommunications gap left by a lack of private investment. Siting and construction of telecommunications facilities are streamlined to avoid undue delay and expense. The K-20 educational network is expanded to public library districts, providing all Washington citizens a point of access to information and services provided over the Internet. \$2.2 million GF-S
- ▶ **Promote VentureStar Project:** State funding continues on a local and state economic impact analysis of Lockheed Martin's VentureStar project, which is necessary to keep Moses Lake in the running for the project. \$250,000 GF-S

Internet Use: Rural Areas Lag Behind Urban*

Top Five Most Wired Cities In the United States*	
1) Washington DC	59.9%
2) San Francisco	56.1%
3) Austin	55.5%
4) Seattle/Tacoma	53.3%
5) Salt Lake City	50.0%

*Percentage of households using the Internet
SOURCE: Washington Post October 1999

Software Industry Jobs Pay More	
Average Wage for Software Industry:	\$66,752
Average Private Sector Wage for Rest of State:	\$30,337



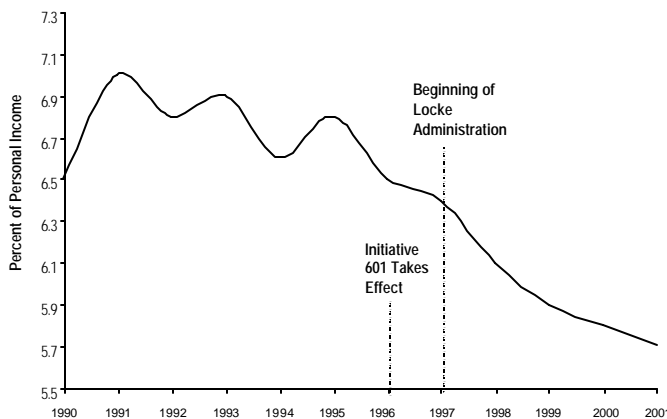
*Based on Number of Household Exchanging Information via a Modern Connection over Phone Lines
OFFICE OF FINANCIAL MANAGEMENT, Forecasting Division (State Population Survey) January 1999

Accelerating Government Efficiency

The people of Washington State want efficient and effective state government services. They have a right to expect that their hard-earned tax dollars provide their children a good education, and that ways are constantly found to make services better and less expensive.

- **Savings and reductions** total \$157 million – Growth of the General Fund budget is among the lowest rates in 30 years.

Spending as a Percent of Personal Income Has Declined
GF-S



- **State workforce is improved.** The accountability, flexibility and competitiveness of the state workforce is improved through civil service and pension reforms. The state's cumbersome job classification system is streamlined. Agencies and post-secondary education institutions are allowed to contract out services to businesses and nonprofit organizations. Collective bargaining for civil service employees is expanded to equal that of local government employees.

- **Budget invests in public's right to know.** More staff and equipment allows the Public Disclosure Commission to fully address new and expanded duties given to them last legislative session to improve campaign finance reporting. \$818,000 GF-S

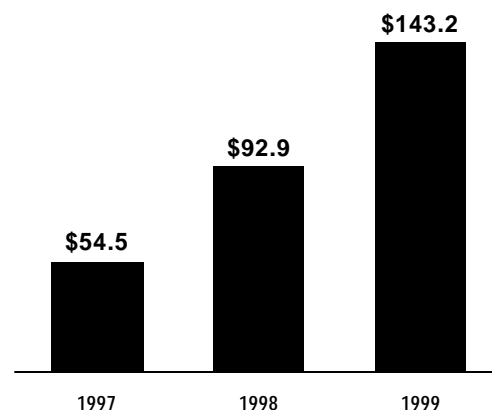
- **State workforce is reduced by** at least 1,500 positions. Employees are re-deployed from less needed operations to front line service. Worker re-training, targeted early retirement, separation incentives and other methods from the business world are used to accomplish these changes in an orderly fashion.

Management of contracts is improved.

Standardized policies and procedures for social service contract administration are developed and training and resource materials to implement the new policies and procedures are provided. \$574,000 GF-S

The Savings Incentive Program is expanded from the General Fund to include other state funds. Since 1997, more than \$143 million has gone into an education savings account to benefit school construction, higher education and

Growth of the Education Savings Account
Dollars in Millions



- **Direct service delivery** to citizens and businesses is improved. "One stop" service on the Internet, as well as by phone and in community storefronts is provided. \$4 million GF-S, \$9 million other funds

1999-01 Balance Sheet

With Governor Locke's Proposed 2000 Supplemental Budget

General Fund-State

(Dollars in Millions)

Resources

Beginning Balance	529.2
November Forecast	20,727.5

Governor's Tax Cuts and Credits, and Other Revenue Items

Learning Improvement Property Tax Credit	(70.0)
Local Option Sales Tax Credits for Transits	(100.0)
Senior Citizen Property Tax Credit	(13.8)
Permanent 6.2 Percent Reduction in Property Tax	(45.9)
Other Bills with Revenue Impact	(4.3)

Supplemental Revenues

(234.0)

Revenue Totals	20,493.5
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Total Resources (Revenue/Fund Balance) 21,022.7

Expenditures

Current Appropriations	20,572.8
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Governor's Proposed Supplemental Budget

Local Government Assistance Related to I-695 Local Revenue Loss	123.0
Transit Assistance Related to I-695 Local Revenue Loss	100.0
Other Revisions	89.0

Supplemental Expenditures

312.0

Total Proposed Budget	20,884.8
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Initiative 601 Expenditure Limit

November 1999 Limit as Adjusted for Governor's Proposed Budget	20,909.8
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Balances and Reserves

Unreserved Balance	137.9
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Initiative 601 Emergency Reserve Account (plus interest earnings)	532.0
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Total Reserves	669.9
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Highlights of Major Appropriation Proposals

General Fund-State
(Dollars in Millions)

Savings		(156.8)
Pension Changes	(63.9)	
Welfare Savings	(44.4)	
Other	(48.5)	
 Forecast Change and High Priority Items		 46.7
 Total Education Expenditures		 100.7
K-12	84.8	
1,000 New Teachers	51.1	
Teacher Quality and Benefits	9.2	
School Safety	5.2	
Levy Equalization	16.7	
K-12 Inflation	1.3	
Information Technology Grants	1.2	
Higher Education	15.9	
Promise Scholarships	4.5	
Skills Gap	1.2	
Distance Learning	1.5	
Information Technology Training Grants	2.4	
Emergencies/Technical Changes	6.3	
 Community/Personal Safety		 26.6
Salmon/Water		8.1
 Initiative 695 Replacement Funding – State Programs		 63.7
Crime Lab	1.4	
Air Quality	12.3	
Contribution toward Transit Liability	50.0	
Subtotal		89.0
 Initiative 695 Replacement Funding - Local Programs		 223.0
Local Government Services	123.0	
Local Transit	100.0	
Governor's Total Proposed 2000 Supplemental Budget		312.0
 Reserve for 2001 Supplemental Budget		 25.0